

Message Text

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ACTION XMB-07

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 3483

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FOR EXIMBANK.

E.O. 11652: N/A

TAGS: BEXP, ARG.

SUBJECT: GOVERNMENT ENTERPRISE FINDS EXIMBANK FINANCING
INACCEPTABLE.

1. AGUA Y ENERGIA ELECTRICA (A&EE) IS A WHOLLY GOVERNMENT-OWNED ENTERPRISE THAT PRODUCES ABOUT HALF THE ELECTRICITY (THERMAL AND HYDRO) GENERATED IN ARGENTINA; AND AS SUCH IS A VERY IMPORTANT PURCHASER OF ELECTRICAL GENERATION AND DISTRIBUTION EQUIPMENT. FOR THE PAST SEVERAL YEARS, MUCH OF A&EE'S EXPANSION PROGRAM HAS BEEN FINANCED BY A \$30 MILLION DOLLARS IDB LOAN. HOWEVER, THIS CREDIT IS PRACTICALLY EXHAUSTED AND A&EE IS NOW DEPENDING ON SUPPLIERS CREDITS TO FINANCE ITS PURCHASE OF IMPORTED EQUIPMENT. THESE PURCHASES ARE APPROXIMATELY \$10-12 MILLION DOLLARS A YEAR.

ALTHOUGH THE PRICES, QUALITY, AND DELIVERY SCHEDULES OFFERED BY U.S. SUPPLIERS ARE PRESENTLY VERY COMPETITIVE WITH THOSE OF THEIR FOREIGN COMPETITORS, A&EE HAS NOT AWARDED ANY RECENT LARGE CONTRACTS TO U.S. FIRMS. THIS IS OCCURRING BECAUSE EXIMBANK FINANCING, ON WHICH U.S. SUPPLIERS HAVE DEPENDED, IS NOT ACCEPTABLE TO A&EE.

DURING THE PREVIOUS 12 MONTHS, P.C.'S HAVE BEEN ISSUED TO CURTISS-WRIGHT, GENERAL ELECTRIC, WESTINGHOUSE AND

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AEG-TELEFUNKEN FOR GAS TURBINE PLANTS (OR COMPONENTS) FOR A&EE. HOWEVER, A&EE HAS NOT ONLY FAILED TO AWARD

ANY CONTRACTS TO ANY OF THE U.S. FIRMS (AEG-TELEFUNKEN HAS HAD CONSIDERABLE SUCCESS BUT NOT WITH EXIMBANK SUPPORT) BUT IT DISQUALIFIES BIDS BASED ON EXIMBANK FINANCING ON THE GROUNDS THAT THE BID IS NOT RESPONSIVE TO TENDER SPECIFICATIONS, I.E. SUPPLIER FINANCING WAS NOT OFFERED.

3. LOCAL REPRESENTATIVES OF U.S. SUPPLIERS AND EMBASSY OFFICERS HAVE BEEN IN FREQUENT CONTACT WITH A&EE OFFICIALS IN UNSUCCESSFUL ATTEMPTS TO ALLAY THE RESERVATIONS THAT A&EE HAS ABOUT EXIMBANK FINANCING. AT THE RISK OF OVERSIMPLIFICATION, A&EE'S PRINCIPAL COMPLAINTS ARE AS FOLLOWS: 1) A&EE HAS NEITHER THE STAFF NOR THE TECHNICAL EXPERTISE (LEGAL) TO COPE WITH CONTRACTS AS LENGTHY AND COMPLEX AS EXIMBANK'S; 2) FULFILMENT OF THE NUMEROUS CONDITIONS PRECEDENT WOULD, BECAUSE OF THE MULTIPLICITY OF REQUIREMENTS ON PERSONNEL IN SEVERAL GOA ENTITIES, INEVITABLY DELAY DISBURSEMENT AND THEREBY DELAY AND DISRUPT A&EE'S INVESTMENT PROGRAM; 3) THE NUMBER AND COMPLEXITY OF ASSURANCES AND GUARANTIES REQUIRED BY EXIMBANK ARE NOT WARRANTED BY THE CREDIT HISTORY OF A&EE AND OF THE GOA, AND THEY RAISE A QUESTION OF GOOD FAITH BETWEEN THE LENDER AND A&EE;

4) AS A DEPENDENCY OF THE NATIONAL GOVERNMENT WHICH CAN ALTER ITS ORGANIZATION, RESPONSIBILITIES, RATE STRUCTURES, PRIORITIES, ETC., A&EE COULD NOT SIGN A CONTRACT SUCH AS EXIMBANK'S WHICH WOULD REQUIRE IT TO COMMIT ITSELF TO CONDITIONS OVER WHICH IT DOES NOT HAVE ABSOLUTE CONTROL AND; 5) EXIMBANK P.C.'S DO NOT PROVIDE A&EE WITH A DEFINITE, IRREVOCABLE ASSURANCE OF FINANCING THAT IS PROVIDED BY SUPPLIERS CREDITS OFFERED BY EUROPEAN AND JAPANESE COMPETITORS AND WHICH IS NEEDED BY A&EE FOR EFFECTIVE PLANNING AND DECISION MAKING. IN SUM, A&EE MAINTAINS (BOTH TO U.S. SUPPLIER REPRESENTATIVES AND TO EMBASSY OFFICIALS) THAT THE ADVANTAGE OF EXIMBANK FINANCING (E.G. LOWER INTEREST RATE) IS MORE THAN COMPENSATED FOR BY THE CASE AND SPEED WITH WHICH OTHER SUPPLIERS ACCEPT BRIEF AND SIMPLE PROMISORY
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NOTES WHICH HAVE A GUARANTEE OF THE NATIONAL DEVELOPMENT BANK.

4. WITH THE OBJECTIVE OF OVERCOMING THE DIFFICULTIES PRESENTED BY A&EE'S POSITION, GENERAL ELECTRIC ARGENTINA HAS PROPOSED THAT EXIMBANK CONSIDER MAKING A LOAN TO SADE (AN ARGENTINE SUBSIDIARY OF GE WHICH IS IN CONSTRUCTION AND ENGINEERING) WHICH WOULD IN TURN ACCEPT PROMISSORY NOTES WITH A GUARANTEE OF THE NATIONAL DEVELOPMENT BANK FROM A&EE. IN THE SCENARIO EN-

VISIONED BY G.E., THESE NOTES WOULD THEN BE DISCOUNTED BY EXIMBANK
WITHOUT RECOURSE TO THE SUPPLIER.

DANIEL R. GRONING, THE LOCAL G.E. INDUSTRIAL EQUIPMENT SALES
MANAGER, WILL
BE IN THE U.S. THIS WEEK AND NEXT ON BUSINESS; AND HE
PLANS TO VISIT EXIMBANK ON SEPTEMBER 10 OR 11 TO
EXPLORE IF AND HOW EXIMBANK'S NORMAL PRACTICES CAN BE
ALTERED SO AS TO ENABLE U.S. SUPPLIERS TO BID ON A&EE
TENDERS.

5. THE EMBASSY HOPES THAT SOME WAY MAY BE FOUND TO KEEP
U.S. SUPPLIERS FROM BEING
AUTOMATICALLY ELIMINATED FROM THE COMPETITION FOR THE
SUBSTANTIAL AMOUNT OF BUSINESS THAT COULD BE OBTAINED
FROM A&EE.
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